

## Message Text

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ACTION EB-11

INFO OCT-01 ISO-00 L-03 EUR-25 ABF-01 SS-15 RSC-01 DRC-01

/058 W

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R 050940Z OCT 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7296

INFO AMEMBASSY BONN

AMEMBASSY SEOUL

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STADIS////////////////////////////////////

E.O. 11652: NA

TAGS: EIND ETRD EGEN OTRA FSP

SUBJ: GAO INQUIRIES INTO STEEP VRA AND TEXTILE IMPORT PROGRAMS

REF: TOKYO 12564

SUMMARY: GAO AUDITORS HAVE COMPLETED OUTSIDE INTERVIEWS IN TOKYO ON VRA AND TEXTILE AGREEMENTS. THESE INCLUDED HARAGUCHI AND NOGAMI AT FONOFF, SUZUKI AT MITI, JAPANESE ECONOMIC COMMENTATOR, OLSON AT MONTGOMERY WARD AND SHIMIZU AT MARUBENI CORP. DETAILS ON CONVERSATIONS GIVEN BELOW. END SUMMARY.

1. GAO AUDITORS COMPETELLO AND GLYNN, ACCOMPANIED BY EMBASSY OFFICER, CALLED ON HARAGUCHI, SECOND NORTH AMERICAN DIVISION, AND NOGAMI, FIRST INTERNATIONAL ORGANIZATIONS DIVISION, FONOFF, SEPT 27 TO DISCUSS GOJ VIEWS ON STEEL VRA AND TEXTILE AGREEMENTS. STEEL VRA DEALT WITH IN BRIEF FASHION BY HARAGUCHI WHO SAID AGREEMENT WAS RESULT OF DISCUSSIONS INITIATED BY JAPANESE STEEL INDUSTRY IN ORDER TO AVERT FEARED IMPOSITION OF LEGISLATIVE RETRICTIONS ON US STEEL IMPORTS. AFTER RUNNING THROUGH OUTLINE OF VRA PROVISIONS, HARAGUCHI SAID GOJ HAD NOT LIMITED OFFICIAL USE

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BEEEN INVOLVED AND THAT AGREEMENT WAS MONITORED BY STEEL

EXPORTERS ASSOCIATION. BOTH HARAGUCHI AND NOGAMI EXPRESSED OPINION THAT AT PRESENT TIME REMOVAL OF VRA WOULD NOT RESULT IN INCREASED STEEL EXPORTS TO US AND WOULD HAVE NO EFFECT ON US DOMESTIC PRICE FOR STEEL.

2. NOGAMI THEN EXPLAINED THAT WHILE HE WAS NOT FAMILIAR WITH NEGOTIATIONS FOR LTA, THIS NO LONGER PROBLEM IN JAPAN AND JAPAN DID NOT COME CLOSE TO FILLING QUOTA. HE ASSERTED THAT JAPANESE COTTON INDUSTRY WOULD IN ALL PROBABILITY NOT WISH TO SEE LTA ENDED. HE SAID THERE WAS NO TRADING OF QUOTAS AND LTA HAD NO EFFECT ON PRICE. HE POINTED OUT THAT LTD HAD JUST BEEN EXTENDED AND THAT PORTION OF AMOUNT ALLOWED UNDER LTA HAD BEEN SHIPPED TO WOOLEN AND MAN-MADE ALLOWANCE. RE WOOLEN AND MAN-MADE AGREEMENT, FINAL DECISIONS HAD BEEN MADE AT HIGHEST LEVEL AND NOGAMI NOT AWARE OF WHAT HAD BEEN INVOLVED. HE SAID THAT AT TIME AGREEMENT ENTERED INTO THERE WAS MUCH EXCESS PRODUCTION IN JAPAN AND GOJ HAD SPENT Y230 BILLION IN AID TO INDUSTRY. HE NOTED THIS WAS NOT IN FORM OF EXPORT SUBSIDY BUT RATHER TO ALLOW PRODUCERS TO ENTER OTHER FIELDS AND HELP EXPORTERS COVER COSTS OF CONTRACTS THAT COULD NOT BE FILLED. NOGAMI STATED THERE WAS NO BUYING AND SELLING OF QUOTAS AND THAT UNUSED QUOTAS HAD TO BE RETURNED TO GOVERNMENT. HE SAID THAT HE DID NOT BELIEVE THAT AGREEMENT WAS HARDSHIP ON JAPANESE INDUSTRY IN THAT STRICT QUOTA CATEGORY SYSTEM DID NOT ALLOW RAPID SHIFTS NECESSARY TO MEET CHANGES IN FASHION. HE ADDED THAT US HAD BEEN FLEXIBLE IN ADMINISTRATION OF AGREEMENT, MORE FLEXIBLE THAN JAPANESE HAD EXPECTED. HE EXPRESSED THOUGHT THAT JAPANESE INDUSTRY WOULD LIKE TO DO AWAY WITH AGREEMENT, BUT DOUBTED SUCH MOVE WOULD BE POSSIBLE IN NEAR FUTURE.

3. GAO AUDITORS ALSO CALLED ON SUZUKI, COUNSELLOR, MITI, TO DISCUSS TEXTILE AGREEMENTS. SUZUKI GAVE VIEW SIMILAR TO FONOFF ON IMPACT OF LTA. HE SAID, HOWEVER, THAT THERE WAS SOME BUYING AND SELLING OF QUOTAS BUT DID NOT BELIEVE THIS HAD ANY EFFECT ON PRICE TO US PURCHASER (HE HAD NO FIGURES TO SUPPORT LATTER STATEMENT). SUZUKI EXPLAINED THAT QUOTAS UNDER LTA WERE MOSTLY GIVEN OUT ON LIMITED OFFICIAL USE

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FIRST-COME-FIRST-SERVE BASIS. ONLY VERY FEW CATEGORIES ALLOCATED ON BASIS OF PRIOR PERFORMANCE. HE SAID THIS DUE TO FACT THAT JAPAN WOULD FILL ONLY 30 PERCENT OF LTA QUOTA THIS YEAR. PRIOR PERFORMANCE BASE USED ONLY FOR THOSE FEW CATEGORIES THAT MIGHT REACH QUOTA LIMIT. HE EXPRESSED VIEW THAT LTA HAD ADVERSE EFFECT ON SHARE OF US MARKET HELD BY JAPANESE COTTON GOODS, BUT BECAUSE OF INCREASED COSTS IN JAPAN AND INCREASED PRODUCTION IN

OTHER COUNTRIES HE DID NOT BELIEVE THAT JAPANESE SHARE WOULD INCREASE IF LTA ABOLISHED.

4. SUZUKI SAID THAT HE VERY MUCH HOPED THAT WOOLEN AND MAN-MADE AGREEMENT COULD BE ABOLISHED (NOTED THAT AGREEMENT HAD BEEN POLITICALLY VERY DIFFICULT FOR JAPANESE AND HAD COST GOJ Y230 BILLION IN AID TO AFFECTED FIRMS), CONCEDED THAT HE DID NOT EXPECT THIS TO HAPPEN AND NOTED THAT JAPAN NOW IN PROCESS OF NEGOTIATING MULTI-FIBER AGREEMENT IN GENEVA. HE SAID THAT MAJOR GAIN TO JAPAN FROM SUCH AN AGREEMENT COULD BE A MODIFICATION TO THE TRIGGER CLAUSE CONTAINED IN CURRENT AGREEMENT. HE NOTED THAT WHILE UNDER FIRST YEAR OF AGREEMENT JAPAN HAD FILLED 100 PERCENT OF ITS QUOTA ON MAN-MADE ITEMS, IN CURRENT YEAR JAPAN WOULD ONLY FILL ABOUT 30 PERCENT OF ITS QUOTAS IN WOOLAND ONLY 70 PERCENT IN MAN-MADE. SUZUKI ECHOED NOGAMI IN STATING THAT U.S. ADMINISTRATORS HAD BEEN FLEXIBLE IN DEALING WITH JAPAN UNDER BOTH AGREEMENTS.

5. GAO AUDITORS ALSO DISCUSSED VRA WITH WELL-CONNECTED JAPANESE ECONOMIC COMMENTATOR WHO ASKED TO REMAIN UNNAMED. HE SAID THAT VRA WAS RESULT OF STRONG BELIEF BY INAYAMA AND NAGANO THAT JAPANESE STEEL INDUSTRY SHOULD CONTRIBUTE TO GOOD RELATIONS BETWEEN US AND JAPAN AND SHOULD MAKE EFFORT TO REPAY DEBT OWED US STEEL INDUSTRY FOR ASSISTANCE PROVIDED FOLLOWING WW II. SAID THIS POSITION NOT FULLY SHARED BY ALL MEMBERS OF STEEL INDUSTRY, IN PARTICULAR GROUP OF STEEL FABRICATORS OPPOSED. HE ALSO NOTED THAT VRA WAS OPPOSED BY JAPANESE TEXTILE INDUSTRY WHICH FELT THAT BY GIVING IN TO US DEMANDS FOR RESTRICTIONS ON STEEL EXPORTS, JAPAN WOULD OPEN ITSELF TO FURTHER REQUESTS FOR RESTRICTIONS, PAR-

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TICULARLY IN TEXTILE AREA. HE NOTED THAT THIS POSITION HAD PROVEN VALID AND US HAD REQUESTED WOOLEN AND MAN-MADE TEXTILE AGREEMENT. HE EXPRESSED VIEW THAT VRA HAD CONTRIBUTED TO CARTELIZATION OF JAPANESE STEEL INDUSTRY, SUPPORTING THIS BY SAYING THAT INAYAMA'S FIRM, FUJI STEEL, HAD MERGED WITH NAGANO'S FIRM, YAWATA, AFTER INTENTION TO PARTICIPATE IN THE VRA HAD BEEN ANNOUNCED. (EMBASSY COMMENT: IN OUR OPINION LATTER VIEW TOTALLY ERRONEOUS. IT SHOULD BE NOTED THAT FUJI AND YAWATA ANNOUNCED INTENTION TO MERGE APRIL 1968 I.E. THREE MONTHS BEFORE INAYAMA INFORMED DEPARTMENT OF EXPORTERS' VOLUNTARY EXPORT PROPOSAL).

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TO SECSTATE WASHDC 7297

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C O R R E C T E D C O P Y --MRN 12969 VICE 2969 --

6. SOURCE SAID THAT AT TIME OF INSTITUTION OF VRA JAPANESE STEEL WAS SELLING ON US WEST AND GULF COASTS AT 30 TO 40 PERCENT BELOW US STEEL PRICES. HE SAID THIS HAD RESULTED IN SOME DUMPING CHARGES, BUT HAD REDUCED THE PRICE TO US CONSUMERS. HE STATED THAT HE DID NOT BELIEVE THAT EVEN AT THAT TIME JAPANESE STEEL PRICES HAD ACTED TO BRING DOWN US STEEL PRICES. HE STATED THAT WHAT DID HAPPEN WAS THAT BECAUSE JAPANESE STEEL WAS SO COMPETITIVE, IT TENDED TO SLOW PRICE INCREASES BY US PRODUCERS. HE NOTED THAT SITUATION MUCH DIFFERENT TODAY.

7. SOURCE ASSERTED THAT ALL THREE TEXTILE AGREEMENTS HURT JAPANESE INDUSTRY AND ULTIMATELY CONSUMERS IN ALL NATIONS. HE SAID THAT WITH IMPOSITION OF LTA INCENTIVE FOR FURTHER INNOVATION IN COTTON INDUSTRY EVAPORATED, HENCE JAPAN HAD LOST EDGE IN COTTON PRODUCTION. HE STATED VIEW THAT VRA AND WOOLEN AND MAN-MADE AGREEMENTS WOULD HAVE SAME EFFECT ON INDUSTRIES CONCERNED.

8. ON OCT 1, GAO AUDITORS DISCUSSED TEXTILE RESTRAINT AGREEMENTS WITH DONALD OLSON, FAR EAST REGIONAL MANAGER,  
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MONTGOMERY WARD AND CO. HE CONFIRMED INFORMATION PREVIOUSLY CONVEYED TO AUDITORS BY MITI (SUZUKI) THAT THERE WAS SOME TRADING OF QUOTAS IN QTE TIGHT UNQTE CATEGORIES, BUT SAID THIS DID NOT INVOLVE ACTUAL TRANSFER OF QUOTAS. INSTEAD, PRODUCERS HOLDING QUOTAS WHICH THEY COULD NOT FILL FROM THEIR OWN PRODUCTION WOULD -- FOR A CONSIDERATION -- SHIP GOODS OF OTHER PRODUCERS WHO HAD GOODS FOR EXPORT BUT NO QUOTAS. OLSON SAID THAT AMOUNTS CHARGED BY QUOTA HOLDERS FOR ACCOMMODATING OTHER PRODUCERS' GOODS WOULD VARY ACCORDING TO THE TIGHTNESS OF QUOTAS FOR SPECIFIC CATEGORIES; FOR CATEGORIES WHERE SHIPMENTS WERE NOT PRESSING AGAINST CEILINGS, QUOTAS HAD NO TRADING VALUE AT ALL.

9. OLSON ASSERTED THAT TEXTILE AGREEMENTS RESULTED IN INCREASED PRICES TO AMERICAN CONSUMERS FOR SOME BUT NOT ALL CATEGORIES OF TEXTILE PRODUCTS UNDER QUOTA. HE SAID HIGHER PRICES PREVAILED IN QUOTA CATEGORIES FOR POPULAR ITEMS SUCH AS DOUBLE-KNITS, WHERE DEMAND WAS HIGH BUT SUPPLY WAS RESTRICTED BY QUOTAS. OLSON ESTIMATED THAT CURRENT PRICES FOR THESE CATEGORIES ABOUT 5 TO 10 PERCENT HIGHER THAN THEY WOULD HAVE BEEN IN ABSENCE OF QUOTAS. HE SAID THERE OBVIOUSLY WAS NO SUCH PRICE EFFECT FOR TEXTILE GOODS IN CATEGORIES WHERE QUOTAS WERE UNDER-UTILIZED. IN THIS CONNECTION, HE OBSERVED THAT DEMAND FOR DIFFERENT TYPES AND STYLES OF TEXTILE PRODUCTS IS SUBJECT TO FAIRLY FREQUENT CHANGE. HE SAID QUOTA SYSTEM IS NOT FLEXIBLE ENOUGH TO TAKE ACCOUNT OF SUCH CHANGES, AND AS RESULT PRESSURE ON SPECIFIC QUOTAS SHIFTS FROM CATEGORY TO CATEGORY.

10. IN THEIR FINAL INTERVIEW IN TOKYO, GAO AUDITORS DISCUSSED VRA WITH Y. SHIMIZU, GENERAL MANAGER, OVERSEAS IRON AND STEEL DEPARTMENT, MARUBENI CORPORATION, AND TWO OF HIS ASSOCIATES. MARUBENI OFFICIALS EXPLAINED THAT CURRENT CONDITIONS IN IRON AND STEEL INDUSTRIES OF BOTH COUNTRIES ARE TOTALLY DIFFERENT FROM CONDITIONS PREVAILING WHEN VRA WAS FIRST INTRODUCED. THEY SAID THAT BEFORE IMPOSITION OF QUOTAS, JAPANESE STEEL WAS SOLD IN US AT PRICES ABOUT 25 PERCENT LOWER THAN DOMESTIC (US) PRICES. AFTER VRA CAME INTO FORCE, JAPANESE EXPORTS LIMITED OFFICIAL USE

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DROPPED SHARPLY AND PRICES WERE INCREASED, BUT WERE STILL ABOUT 10 PERCENT LOWER THAN US PRICES THROUGH 1973. CURRENTLY, THEY SAID JAPANESE STEEL SELLS IN US AT HIGHER THAN DOMESTIC PRICES AND QUOTAS ARE BEING UNDER-UTILIZED

IN ALL PRODUCT CATEGORIES.

11. MARUBENI OFFICIALS EXPLAINED THAT THERE ARE TWO REASONS WHY JAPANESE STEEL NOW SELLS FOR HIGHER THAN DOMESTIC PRICES IN US: (1) PRICE CONTROLS AND (2) THE FACT THAT US PRODUCERS DO NOT HAVE CAPACITY TO MEET TOTAL DEMAND. THEY ADDED THAT ACCORDING TO THEIR PROJECTIONS US DEMAND FOR STEEL WILL CONTINUE DURING THE NEXT SEVERAL YEARS TO EXCEED A LEVEL WHICH DOMESTIC PRODUCERS CAN SUPPLY, AND THAT JAPANESE STEEL WOULD CONTINUE TO BE IMPORTED EVEN AT HIGH PRICES. THEY DID NOT BELIEVE THE VRA WOULD HAVE MUCH EFFECT IN FUTURE, BUT THEY SAID JAPANESE INDUSTRY PROBABLY WOULD PREFER TO SEE AGREEMENT TERMINATED.

12. GAO AUDITORS CONDUCTED INTERVIEWS IN OSAKA ON OCT 2 AND 3 CONCERNING TEXTILE AGREEMENTS. RESULTS OF THESE DISCUSSIONS WILL BE REPORTED SEPARATELY.  
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